

June 13, 2003

SENT BY E-Mail, and  
First Class U.S. Mail

Maribeth Ladd  
Rubin and Rudman LLP  
50 Rowes Wharf  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 03-36

Dear Ms. Ladd:

Enclosed please find information requests by the Department of Telecommunications and Energy to Bay State Gas Company regarding the above-captioned matter. Please submit copies of the Company's responses to the Department by 5:00 p.m., June 27, 2003.

Should you have any questions please contact me at (617) 305-3762. Thank you for your prompt attention to this matter.

Sincerely,

Jody Stiefel  
Hearing Officer

Enc.

cc: Service List  
Mary Cottrell, Secretary

FIRST SET OF INFORMATION REQUESTS OF  
THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY TO  
BAY STATE GAS COMPANY

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Pursuant to 220 C.M.R. 1.06(6)(c), the Department of Telecommunications and Energy ("Department") hereby submits to Bay State Gas Company ("Bay State" or "Company") the following information request(s) with respect to the Company's March 21, 2003 Petition for Authority to Recover Exogenous Costs Associated with Lost Base Revenues, D.T.E. 03-36.

**INSTRUCTIONS**

The following instructions apply to this set of Information Requests and all subsequent Information Requests issued by the Department to the Company in this proceeding.

1. Each request should be answered in writing on a separate, three-hole punch page with a recitation of the request, a reference to the request number, the docket number of the case and the name of the person responsible for the answer.
2. Do not wait for all answers to be completed before supplying answers. Provide the answers as they are completed.
3. These requests shall be deemed continuing so as to require further supplemental responses if the Company or its witness receives or generates additional information within the scope of these requests between the time of the original response and the close of the record in this proceeding.
4. The term "provide complete and detailed documentation" means:  
  
Provide all data, assumptions and calculations relied upon. Provide the source of and basis for all data and assumptions employed. Include all studies, reports and planning documents from which data, estimates or assumptions were drawn and support for how the data or assumptions were used in developing the projections or estimates. Provide and explain all supporting work-papers.
5. The term "document" is used in its broadest sense and includes, without limitation, writings, drawings, graphs, charts, photographs, phono-records, microfilm, microfiche,

computer printouts, correspondence, handwritten notes, records or reports, bills, checks, articles from journals or other sources and other data compilations from which information can be obtained and all copies of such documents that bear notations or other markings that differentiate such copies from the original.

6. If any one of these requests is ambiguous, notify the Hearing Officer so that the request may be clarified prior to the preparation of a written response.
7. Please serve a copy of the responses on Mary Cottrell, Secretary of the Department, one copy to the Service List, four copies to George Yiankos, of the Department's Gas Division, and submit one copy of the responses to Jody M. Stiefel, Hearing Officer.

- DTE 1-1. Refer to Exh. BSG-3 (JLH), at 3. Please submit a copy of LNR No. 14 which the Company filed with the Department on September 15, 2002 showing all calculations and supporting documents.
- DTE 1-2. Refer to Exh. BSG-3 (JLH), at 7. The Company states that “[w]hen Bay State entered into its current Rate Plan in 1998 approved in Docket D.T.E. 98-31, the Department had not yet implemented the RPM for Bay State. Bay State had calculated its revenues to be consistent with the existing LBR policy and calculation. The change in regulatory policy resulted in the rapid decline in LBR recovery. This decline, stemmed solely from the use of the RPM, was unexpected, was out of Bay State’s control, and has made this exogenous cost factor filing necessary.”
- (a) Please indicate the following events in chronological order:
- (i) the date that Colonial Gas Company (“Colonial”) filed a proposal with the Department for the recovery of lost base revenue (“LBR”) associated with its demand-side management (“DSM”) programs in D.T.E. 97-112;
  - (ii) the date that the Department conducted a hearing on Colonial’s petition for the recovery of LBR in D.T.E. 97-112;
  - (iii) the date that the Department issued a notice to all local distribution companies (“LDCs”) to investigate the time period for the recovery of LBR by Colonial and other LDCs in D.T.E. 97-112;
  - (iv) the date that the Department granted Bay State full intervenor status in the investigation of the time period for the recovery of LBR in D.T.E. 97-112;
  - (v) the date that the Department conducted a hearing on the time period for the recovery of LBR by Colonial and other LDCs in D.T.E. 97-112; and
  - (vii) the date that Bay State filed its current Rate Plan with the Department in Docket D.T.E. 98-31.
- (b) Given your response to (a) above, demonstrate that the change in regulatory policy as a result of the Department’s Order in D.T.E. 97-112 was unexpected, or unanticipated, by Bay State at the time that the

Company filed its current Rate Plan with the Department in D.T.E. 98-31.

- DTE 1-3. Refer to Exh. BSG-3 (JLH), at 8. Please provide examples of the Department's "rigorous scrutiny" of the methods used by Bay State to compute LBR.
- DTE 1-4. Refer to Exh. BSG-3 (JLH), at 8. Please:
- (a) provide a list of Bay State's administrative and energy auditing vendors who determine the energy savings associated with the Company's DSM program;
  - (b) explain how the energy auditing vendors were selected;
  - (c) explain the method used by the energy auditing vendors to calculate the energy savings associated with the Company's DSM program;
  - (d) explain whether there has been an independent or third-party evaluation of the methods used by the energy auditing vendors to calculate the energy savings associated with the Company's DSM program regarding the accuracy and reliability of these methods;
  - (e) provide a list of the software used by the energy auditing vendors "that has been approved by the Division of Energy Resources [DOER]." Also, provide a copy of the DOER's approval of the software used by the energy auditing vendors; and
  - (f) provide a list of the "industry-accepted energy modeling software and practices" used by the energy auditing vendors other than those that have been approved by the DOER. Indicate whether there has been an independent or third-party evaluation of the software regarding their accuracy and reliability.
- DTE 1-5. Refer to Exh. BSG-3 (JLH), at 8-10. Please explain how the Company accounted for energy savings realized by customers other than those attributed to Bay State's DSM program in the calculation of net energy savings.
- DTE 1-6. Refer to Exh. BSG-3 (JLH), at 9. The Company states that "[t]he realization rates represent the relationship between the gross therm savings and the therm savings actually realized by the performance of a sample of the installed measures." Please explain how the "sample of the installed measures" was selected. Your response should include a discussion of the sampling frame and

the sampling methodology used, as well as how the sample size was determined. Provide all worksheets and computer printouts in support of your answer.

DTE 1-7. Please provide any available assessment of the Company's Residential, Multi-Family and Commercial and Industrial ("C&I") DSM programs with regard to the following since the inception of Bay State's DSM program:

- (a) overall customer satisfaction and customer complains;
- (b) bill savings;
- (c) improved customer operations; and
- (d) lowered maintenance costs.

DTE 1-8 Please discuss whether there have been any problems with the proper installation and maintenance of the Company's DSM measures to date, and the steps that the Company has taken to address these problems. How will any such problems affect the energy savings estimates presented in this filing?

DTE 1-9. Please discuss whether the Company has conducted, or intends to conduct, any full-blown or limited (i.e., based on a small representative sample of customers) energy and bill savings analyses for its Residential, Multi-Family and C&I DSM programs to validate the energy savings estimates and the assumptions behind the estimates that are presented in the Company's filing.

DTE 1-10. Please provide the information to complete the Table below:

<b>Part I: 4-Year Rolling Period Method (RPM)</b>			
<b>Customer Class</b>	<b>Lost Base Revenues (LBR)</b>	<b>Associated Carrying Costs</b>	<b>Total LBR</b>
Residential - Heating			
Residential - Non-Heating			
Multi-Family			
Total (Residential & Multi-Family)			
Commercial & Industrial			
<b>Total</b>			

  

<b>Part II: Method Prior to DTE 97-112 (1999)(All DSM Measures Installed Included)</b>			
<b>Customer Class</b>	<b>Lost Base Revenues (LBR)</b>	<b>Associated Carrying Costs</b>	<b>Total LBR</b>
Residential - Heating			
Residential - Non-Heating			
Multi-Family			
Total (Residential & Multi-Family)			
Commercial & Industrial			
<b>Total</b>			

  

<b>Part III: Exogenous Costs Calculation</b>			
<b>Customer Class</b>	<b>LBR to be Recovered As Exogenous Cost</b>	<b>Associated Carrying Costs to be Recovered As Exogenous Cost</b>	<b>Total LBR to be Recovered As Exogenous Cost</b>
Residential - Heating			
Residential - Non-Heating			
Multi-Family			
Total (Residential & Multi-Family)			
Commercial & Industrial			
<b>Total</b>			

Indicate the time period covered by the data.

DTE 1-11. Please provide the information to complete the Table below:

<b>Part I: 4-Year Rolling Period Method (RPM)</b>			
<b>Customer Class</b>	<b>Gross Therm Savings</b>	<b>Net Therm Savings</b>	<b>Net Therm Savings As a Percentage of Gross Therm Savings (%)</b>
Residential - Heating			
Residential - Non-Heating			
Multi-Family			
Total (Residential & Multi-Family)			
Commercial & Industrial			
<b>Total</b>			

  

<b>Part II: Method Prior to DTE 97-112 (1999)(All DSM Measures Installed Included)</b>			
<b>Customer Class</b>	<b>Gross Therm Savings</b>	<b>Net Therm Savings</b>	<b>Net Therm Savings As a Percentage of Gross Therm Savings (%)</b>
Residential - Heating			
Residential - Non-Heating			
Multi-Family			
Total (Residential & Multi-Family)			
Commercial & Industrial			
<b>Total</b>			

  

<b>Part III: Exogenous Costs Calculation (Therm Savings)</b>			
<b>Customer Class</b>	<b>Gross Therm Savings</b>	<b>Net Therm Savings</b>	<b>Net Therm Savings As a Percentage of Gross Therm Savings (%)</b>
Residential - Heating			
Residential - Non-Heating			
Multi-Family			
Total (Residential & Multi-Family)			
Commercial & Industrial			
<b>Total</b>			

Indicate the time period covered by the data.



DTE 1-12. Please refer to Exh. BSG-2 (SHB), at 4.

- (a) Explain the basis for the Company's assertion that "the Company recognizes that the Exogenous Factor section of the LDAC should have been updated to reflect the expiration of the unique provisions of Bay State's Two-Year Rate Plan in D.T.E. 97-97 and the implementation of the provisions of D.T.E. 98-31, which pertained to a Rate Plan comprised of a five-year rate freeze."
- (b) State the "unique provisions of Bay State's Two-Year Rate Plan in D.T.E. 97-97" and "the provisions of D.T.E. 98-31, which pertained to a Rate Plan comprised of a five-year rate freeze" referred to here; and
- (c) Explain why "the Exogenous Factor section of the LDAC" was not updated?

DTE 1-13. Please refer to Exh. BSG-2 (SHB), at 5. Explain what the Company means by "normal, routine costs, expenses and revenue losses."

DTE 1-14. Please refer to Exh. BSG-2 (SHB), at 9. Explain why Bay State has not proposed the recovery of exogenous costs associated with its DSM program in the Company's previous Lost Net Revenue ("LNR") filings.

DTE 1-15. Please refer to Exh. BSG-2 (SHB), at 9. The Company States that "Bay State seeks to recover, on a going-forward basis, the difference between the cumulative LBR costs that the Company would have recovered before Colonial Gas I decision, and those costs that would have been recovered absent the change in regulatory policy."

- (a) Explain what the Company means by "on a going-forward basis".
- (b) Demonstrate that Bay State's proposal to recover exogenous costs associated with its DSM programs in the instant proceeding does not constitute a retroactive ratemaking.

DTE 1-16. Please refer to Exh. BSG-2 (SHB), at 10. The Company states that "[t]his inconsistency between the presumption of rate case frequency in the RPM and the reality of the five-year rate freeze is a significant contributing factor to Bay State's need for additional revenues." Please provide evidence that shows "Bay State's need for additional revenues." In your response, demonstrate that Bay State has suffered a revenue shortfall (compared to the revenue requirements approved for the Company in its last rate case) as a result of the non-recovery of the exogenous costs proposed in this filing.

- DTE 1-17. Please refer to Exh. BSG-2 (SHB), at 10. Demonstrate that “without these revenues Bay State’s current earnings will not permit it the opportunity to recover a reasonable return on the investment it has made, and the costs it incurs on an on-going basis, to serve its customers.”
- DTE 1-18. Please refer to Exh. BSG-1, Schedule A. Show that, in calculating the Company’s return on equity (“ROE”) presented in Schedule A, Bay State followed the formula proposed by the Department in its February 14, 2003 Order (and further clarified in the Department’s April 3, 2003 Letter Order) to gas and electric distribution companies on how to calculate their return on equity. Provide all worksheets in support of your answer.
- DTE 1-19. Please refer to Exh. BSG-1, Schedule A.
- (a) Explain why the Company’s return on equity (“ROE”) for the twelve months ending December 31, 2002 is 1.81 percent and not 7.61 percent or 7.85 percent as shown in Schedule A.
  - (b) Provide Bay State’s ROE for the years 1995 through 2001. Explain how the ROE was calculated for each year. Indicate the sources of the data used to calculate the ROE.
  - (c) Provide Bay State’s bond ratings for the years 1995 through 2002. Indicate the sources of your figures.
- DTE 1-20 Please refer to Exh. BSG-1, Schedule A. Define and explain the differences between “return on equity”, “net return on equity”, and “adjusted net return on equity”.
- DTE 1-21 Please refer to Exh. BSG-1, Schedule A. Assume that Bay State is allowed to recover the \$1,413,872 that the Company has proposed to recover as exogenous costs. Recalculate Bay State’s “return on equity”, “net return on equity”, and “adjusted net return on equity” for the period under review. Present the results as in Exh. BSG-1, Schedule A. Submit all worksheets to show how the calculations were done.

DTE 1-22 Please refer to Exh. BSG-1, Schedule A. Show how the following amounts related to the Bay State/NiSource Merger premium elimination were calculated. Provide the sources of the figures and all worksheets to show how the figures were derived.

- (a) total utility operating income: \$6,758,758
- (b) total property capital: (\$301,026,113)
- (c) utility ratio, utility plant: (\$445,386,957)
- (d) utility ratio, total other property & investment: (\$48,449,826)

DTE 1-23 Please refer to Exh. BSG-2, at 6.

- (a) Discuss how the non-recovery of the proposed exogenous costs has significantly affected the Company's operations. State the Company's understanding of the phrase "significantly affected the Company's operations", and outline "the Company's operations" that have been "significantly affected"; and
- (b) Explain the Company's understanding of the phrase "the Company's earnings, independent of recovering a proposed exogenous cost, are reasonable." Explain how Bay State has satisfied this condition for the recovery of exogenous costs.

DTE 1-24 Please refer to Exh. BSG-2, at 11-12. Explain why the Company does not seek recovery of the full impact of the change in LBR calculation methodology.

DTE 1-25 Please refer to Exh. BSG-2, at 11-12 and to the Company's March 21, 2003 filing. Discuss how the Company arrived at the following amounts and what each amount stands for:

- (a) \$9,763,656 (see page 3 of Bay State's March 21, 2003 filing);
- (b) \$4.2 million (see page 12 of Exh. BSG-2); and
- (c) \$1,413,872 (see page 11 of Exh. BSG-2).

DTE 1-26 Please refer to Exh. BSG-3, Schedule E. The Company has presented a Table with a simplified exogenous cost calculation. Explain in detail why the Therm Savings eligible under RPM remains at four million therms after 2000. Specifically, discuss why the cumulative therm savings from the previous four years were not included.